FAIRPOINTE CAPITAL

“Six Thoughts on the Election”

Mary Pierson, Co-CEO and Portfolio Manager

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1. Historically, the most predictive factor for the stock market in a post-election period is the state and direction of the economy. Which political party is victorious has had much less predictive significance in the direction of the stock market.

2. The U.S. equity market was in positive territory yesterday – the day following the U.S. election. The sectors which led include beneficiaries of infrastructure spending, such as construction and engineering, and metals and mining within the materials sector including steel and aluminum. Short-covering has supported the market more broadly as uncertainty surrounding the election outcome has been resolved. Some stocks and industry indices are surpassing 12 month highs, including the NASDAQ Bank Index and a number of our financial holdings (Raymond James and Northern Trust). Healthcare stocks also moved as the market anticipates a coordinated effort to repeal The Affordable Care Act (Obamacare) and relief from Secretary Clinton’s pledge to reduce various healthcare costs – notably drugs.

3. The presidency and the two houses of Congress will be controlled by the Republican party beginning on January 20, 2017. This may point to a unified and unencumbered agenda moving quickly through the governmental process – for example, spending on infrastructure. The President-elect’s actual agenda is uncertain, however, given his lack of history as an elected official or policy track record. In addition, his ‘outsider’ positioning relative to the Republican establishment provides some uncertainty as to the speed and degree to which these constituents will work together.

4. Of longer-term concern is the degree to which prior anti-trade and anti-globalization rhetoric will be acted upon in the new administration. Again, it is impossible to predict this scenario other than to expect this arena to be a future source of volatility. However, given that President-elect Trump considers himself to be a ‘negotiator’, campaign rhetoric could be cast as a starting point for negotiation rather than a hardline position.

5. Our Mid Cap Core Strategy portfolio outperformed the market yesterday. Recognizing the continuing environment of heightened volatility, we are actively managing the portfolio - as always - to take advantage of extreme short-term moves while maintaining our long-term focus.

6. As always, we use a bottom-up valuation based approach to our investment process, taking advantage of short-term disruptions resulting in “mispriced” stocks. The portfolio is attractively valued with a current P/E multiple of 14.8x versus the S&P 400 Index at 17.4x, the Russell Midcap Index of 17.6x and 16.3x for the S&P 500. Many of our stocks have recently beaten consensus earnings estimates, yet are still selling at multiples that reflect trough earnings. Going forward, we will continue to utilize a longer-term valuation based approach to investing.